

CHAPTER V

MRC-CHINA COOPERATION IN THE CONTEXT OF NEW HYDROPOLITICAL DYNAMICS

5.1 Introduction

Chapter four provided an analysis of the current state of interactions between the MRC and China. Trends suggest that China is expanding its cooperation with the MRC. Within the Mekong Basin, several factors have contributed to China's level of cooperation with the MRC, which stem from broader changes within the basin. Generally, factors creating enmity and pushing China away from the MRC include historical animosities, power asymmetries, China's hydraulic mission including increasing energy needs, and increased bilateral and multilateral involvement in China's hydropower sector. Factors creating conditions of amity leading to better cooperation include strengthening interdependencies between China and the Lower Mekong states, better trust between the MRC and China, a greater interest in extending regional stability for expanding trade, and an increased environmental orientation. (Table 6 provides a summary of these issues.) These categories overlap extensively with some issues, for instance multilateral integration, serving as both push and pull factors. Further, actors within China and within the MRC also influence the extent to which cooperation is deemed beneficial. This analysis is not exhaustive and these issues warrant further research as well. However, by analyzing these pivotal dynamics, a clearer picture emerges as to how interdependencies created outside the MRC framework influence the extent to which China interacts with the MRC. The following explores some of the key factors that influence China's position on the cooperation continuum within the Mekong Basin.

Table 6: Factors promoting enmity and amity in the Mekong Basin.

General Factors Inhibiting Cooperation Between China and the MRC	<ul style="list-style-type: none"> - Historical Animosity (Mistrust Between China and countries within the MRC) -Power Asymmetries -Hydraulic Mission (National Security; MA inhibits economic development agenda) -Energy Needs in China, Region Promoting Hydropower Development -Established Bilateral/Multilateral Relations Outside MRC Framework -Other Organizational Structures Emerging with water-related agendas
Factors Promoting Cooperation with MRC (Amity)	<ul style="list-style-type: none"> * MRC moving away from criticism of China; towards development agenda * Trust Established/Dependencies Created through Bilateral/Multilateral Arrangements * Greater Interest in Regional Integration/Security, Legitimacy * Growing Environmental Orientation within China

5.2 Broad Factors Influencing Basin Interactions

Within the Mekong Basin, common factors have emerged that create both competitive and mutually beneficial interests. For instance, globalization has led to an increase in linkages of human interactions within the Mekong Basin that create interdependencies to the extent that social, political, and economic activities of one country impact, and are impacted by, the social, political, and economic activities of another. Goods and services cross increasingly open borders, binding actors into a complex web of cross-border interactions. At the same time, Mekong states are progressing towards an economic order based on free market principles of deregulation, privatization, and liberalization of trade and investment. Revolutions in transportation, communication, information processing, and production technology allow producers to ship and assemble goods at reduced costs.

Increased openness to trade has made the Mekong region one of the fastest growing sub-regions in the world, with GDP growth rate in 2004 ranging from 6 percent in Thailand, Cambodia and Lao PDR to 7.5 percent in Vietnam, and more than 11 percent for Yunnan (World Bank, 2006, p. 68). Many areas within the region suffer from a lack of infrastructure development in terms of transportation, communication facilities, as well

as limited access to electricity. According to World Bank figures, demand for electric power grows at 10-20 percent per year, in general (World Bank, 2006, p. 17). The need for infrastructure development and access to new energy sources increases as basin economies continue to grow at an average of 7% per year. Increased political and economic integration is one way to share the costs, as well as meet common needs in regards to development. All the Mekong states are in some way linked politically and economically through the Association of Southeast Nations, as well as the Asian Development Bank's Greater Mekong Sub-region initiative. These initiatives advocate for the liberalization of trade and investment, and the promotion of infrastructure development, including development of natural resources and, in particular, water resources.

In addition to increased regional awareness of economic interdependencies, there has been increased recognition of transboundary environmental impacts, such as degradation of water supplies, droughts, and flooding, and the need to take a holistic, cross-sectoral approach in order to protect shared resources. Similarly, there has been a global convergence around concepts of sustainable development and establishing principles of IWRM. The Johannesburg Summit in 2002 reflect the latest demand for better environmental practices, and need to adhere to development that supports the triple bottom line of economic development that is environmental and socially just.

Mekong states are, therefore, simultaneously guided by a need to further economic growth through infrastructure development, while also needing to address the social and environmental implications of unrestrained development. Interdependencies create challenges for states as they impact, and are impacted by, the acts and behaviors of other states. However, each state is guided in their international behavior by domestic, as well as regional, economic, social, and political dynamics. Whereas expanding trade and economic development in terms of access to sea lanes, and developing flood mitigation plans seemingly create conditions for transboundary cooperation, other political and

economic factors may impinge this possibility, making cooperation an unattractive option for some. This has been the case for China and the MRC, as a multitude of political and economic factors have helped inhibit cooperation early on. However, interdependencies created from globalization may begin to override these factors, creating avenues for increased cooperation over transboundary waters within the MRC framework. The next sections look into specific factors that have promoted enmity and amity between China and the MRC.

5.3 General Factors Inhibiting Cooperation (Enmity)

Historically, China and MRC interactions have been mooted by a number of factors including power asymmetries, historical animosity, and China's unilateral development on the Mekong River, which have been addressed in preceding chapters. Most relations between upstream and downstream users of shared water resources are politicized, due to asymmetries in the ability to utilize the water resources. China as headwater state controls all of its inflows and outflows, and, thus, is not dependent on the lower riparians for access to its natural resources. Elhance has labeled this the upstream-downstream problematique where the upstream country, by sheer nature of geography, sets the water agenda for other riparian states (Elhance, 1999). Referring to chapter two, China also maintains the position of hegemon as it is economically, politically, and militarily superior than the other states. China has proceeded with its hydraulic mission accordingly. The lower riparian states lack the means in terms of economic or military power to enforce China into compliance.

Historical animosities derived from Cold War ideological conflicts between China and its downstream neighbors, namely Vietnam, have also hampered interactions. Indeed, China was only invited to join the MRC in 1995 after negotiations established the Mekong Agreement and the Mekong River Commission. China had been invited to partake in the negotiation process by Thailand, but this was rejected by Vietnam (Browder, 2000). Less than a decade prior to these negotiations, China and Vietnam had

engaged in a violent border war, which may have contributed to Vietnam's reticence regarding China's involvement. The MRC's internal difficulties, in particular a lack of political will to enforce elements of the agreement, as well as heavy donor influence have also contributed to China's reluctance to enter the framework. Indeed, the MRC was first supported by the US, and most recently by Japan, among others, which have both been regional rivals for China. The MRC's first CEO was from Japan, reflecting Japan's central role in the organization. The internal issues of the MRC play a role in China's involvement.

The Mekong Agreement itself has been a hindrance for China as it places restrictions on Member's sovereignty in terms of the utilization of the mainstream waters, and further requires notification or consultation of development projects that may have harmful impacts (Article 5, 6). China during the time of signing already had one dam on the mainstream, and one in the process of construction. Entering the Mekong Agreement would impact China's ability to carryout its development plans as it would require consultation from the other members. These development plans are crucial for China's overall economic stability and warrant further exploration.

5.3.1 China's Domestic Environmental and Energy Crisis

Increased economic growth in China has created environmental pollution, water and energy shortages, poverty, and social dislocation that have put central and provincial authorities in an uncomfortable position within China and with its regional neighbors. While the urban centers in the east, namely Shanghai, Guangdong, and Beijing, have been able to reap the benefits from technological innovation and record economic growth, the more agrarian western provinces have been left behind, with some provinces registering no growth (Mol, 2005). For instance, in Yunnan province – China's 8th largest province – half of the population earns less than \$US 80 a year and in 2000, the average GDP per capita was only \$US 560 with over 1.5 million suffering from food

scarcity (Makkonen, 2005). Rural poverty has led to increased urban migration, which places strains on already crowded cities.

Further, industrial pollution and environmental degradation have created acute environmental crises in China. According to Dore (2004), industrial pollution from coal-fired power plants has afflicted one-third of China's territory with sulphur-dioxide related acid rain (Dore, 2004, p. 4). In 2003, the SRDC's Energy Research Institute (SRDC-ERI) indicated a rise in coal demand to 2.1 to 2.9 billion tons per year, which would require a doubling of current production capacity (Dore, 2004, p. 4). Asthma and other respiratory illnesses are also on the rise. Viewing these environmental catastrophes as inhibiting future economic growth, in its 10th Five-Year Plan (2000-2005), the Central Government issued a set of environmental goals, including reducing sulphur dioxide emissions by 10 per cent over five years, and to improve solid waste and wastewater management (China Development Brief, 2006). According to the State Environmental Protection Agency, emissions rose by 27 per cent, and overall the government missed 40 per cent of its environmental targets (China Development Brief, 2006).

Further, roughly two-thirds of China's 600 cities suffer from water shortages, according to China's Ministry of Water Resources. By 2030, the per capita supply is expected to fall from 2200 m³ to below 1700 m³, the World Bank's definition of a water scarce country" (Economy, 2004, p. 89). Reflecting this, the Yellow river runs dry before reaching the sea during some parts of the year, and in 2006, the Yangtze basin suffered from extensive month-long droughts. In an effort to address critical shortages in the North, the Chinese government has embarked on a South-North Water Transfer Project that will divert water from the Yangtze River to Beijing, as well as transfer water from the Tibetan plateau to Qinghai Province as well as feed the Yellow River. These plans may reduce the level of water in the Lancang as interbasin transfers divert water to other rivers.

Currently, China uses 60% of its water resources for agriculture development (Yuanyuan, 2006). According to China's Ministry of Water Resources, "the amount of agricultural water deficiency is 30 billion m³ and over 7 million hectares of land cannot be irrigated due to water shortages", and over 20 million hectares of land produce low to middle quality products due to water deficiencies (Yuanyuan, 2006). This is further exacerbated by the level of pollution flowing into China's domestic water supply. Over 86.33 million tons of polluted water is discharged into China's water sources (Yuanyuan, 2006).

China is also challenged by continuing energy shortages in its eastern provinces, which are also vital links to the global economy. According to Magee, Guangdong has taxed its thermal electrical production capacity, and while the State Council has preliminarily approved proposals for nuclear plants in Guangdong, energy from these sources will not be available for some time (Magee, 2006). The eastern areas are succumbed by power blackouts, which could hinder commerce and overall economic development.

5.3.2 Hydropower Development

Given the environmental and energy crises within China, hydropower development has taken on renewed importance, as demonstrated with the Western Region Development Strategy 2000-2020, also known as the "Develop the West" strategy, adopted in February 2000. China has the largest exploitable hydropower in the world with an estimated 378 million kw concentrated in the southwest, central, and northwest parts of China; the key energy demands come from the east and south of China in Shanghai municipality, Guangdong, Jiangsu, and Zhejiang provinces (Goh, 2005, p. 8). The "Develop the West" plan forms a crucial component of China's Tenth Five-Year Plan (2001-2005), and aims to address energy needs in the east while combating poverty by industrializing western provinces (ADB, 2002). Specifically, the plan calls for

building transportation, telecommunications, pipelines, and importantly, national power grids. The Asian Development Bank's Greater Mekong Sub-region initiative is seen as a crucial component for securing investment for developing transportation links and other important infrastructure needed to industrialize the west, and to connect the west with economies in South-East Asia (Dore, 2004).

Important to the Develop the West strategy is developing a power grid for the eastern areas, as well as for export to South-East Asia. According to the 10th Five-Year plan, Guangdong will import one-quarter of its power supply from the southwest by 2005 (Ryder, 2006). The 11th Five-Year Plan pledges to double the amount of hydropower the nation produces by 2010, and to increase export targets to Vietnam and Thailand. It is estimated that 8 GW of power from both coal-fired plants as well as hydropower will be transmitted per year from Yunnan to Guangdong by 2015 (Dore, 2004, p. 9). The Lancang River loses 1,780 meters in elevation as it moves through Yunnan province, giving it a possible hydroelectric potential of 25,000 MW (Dore, 2004, p. 9). This is substantial for an energy-short China. Already, Yunnan provides roughly 10% of China's hydropower; however, it is estimated its full capacity to generate upwards of 20-24% of China's national hydropower production (Dore, 2004, p. 8). Yunnan power will play a crucial role in the West-to-East power reconfiguration, as well as for feeding into regional power grids. In 2001, Yunnan province exported 900,000kw of electricity to Guangdong, and in 2002, began selling electricity to Laos (Goh, 2005, p. 8).

5.3.3 China's Decentralization and Semi-Privatization of Energy Sector

Increased domestic and regional energy demands and a need to reduce environmental pollution are only a few dynamics behind hydropower development in China. Indeed, crucial to this is China's recent decentralization and semi-privatization of its power sector. In 2002, the China State Power Corporation (CSPC), which replaced the Ministry of Electric Power in 1998, was broken into five smaller state power

companies, with each of these companies (and their affiliates) given rights to China's major watersheds (Makkonen, 2005; Dore, 2004; Ryder, 2006; Magee, 2006). A sixth company has rights to the Three Gorges dam. China's Huaneng Corporation maintains the rights to develop hydropower on the Lancang River through its affiliate, the Yunnan Huaneng Lancang River Hydropower Co., Ltd. (Makonnen, 2005; Ryder, 2006).

Officially, hydropower projects must go through an approval process with the central government giving final approval for large projects and projects involving international rivers (Makkonen, 2005). The Lancang projects are both largescale and international, giving the central government, or more specifically the National Development and Reform Commission (NDRC), more authority to approve projects (Makkonen, 2005). Highly sensitive development projects may require the approval of the State Council. Though the NDRC has authority to supervise licensing of companies regulate the energy sector by setting prices and approving construction sites, it is not yet clear how NRDC will influence the energy sector, i.e. if it will raise prices to market levels. At present, prices are still set by the NDRC at below market costs for coal use, making hydropower investment a profitable endeavor (Ryder, 2006). Further, the newly established State Energy Regulation Commission is authorized to supervise licensing services.

Before 2002, the SPC had a monopoly on hydropower generation, owning nearly 46% of the China's electricity generation (Dore, 2004). By breaking up the SPC into smaller units, the reforms created a competitive environment for hydropower expansion, where companies must compete with each other for investment opportunities, and to ultimately increase profitability. Huadian, Guodian, Datang and China Power Investment Company invested USD 4.89 billion to build thermal and hydropower plants in the southern China region of Guangxi in 2003 (Dore, 2004, p.20) while the China Southern Power Grid Company, which oversees transmission in China's southern provinces, will spend \$24 billion on infrastructure development to improve transmission lines between

Yunnan and Guandong, as well as to Vietnam and Thailand (Ryder, 2006, p. 2). In 2004, China's power grid company earned more than \$500 million in export sales in 2004 (Ryder, 2006, p. 2).

These new competitive environments for hydropower development encourages development of hydropower dams based on projected energy demands and production capacity at lower than market costs. Hydropower is, thus, propelled as a cheaper (and cleaner) alternative to coal-fuel. Transmission lines make it easily transferable to other states, making hydropower a top export in the region. In a race to secure higher investments, companies are staking claims on various rivers, and proposing hydropower projects that do not necessarily match domestic or energy demands. For instance, originally Thailand was to purchase the first two years of energy generated from China's Jinghong dam. Due to lower than expected energy needs, Thailand has since reneged on the agreement.

Hydropower development in China forms a crucial component of China's domestic development strategy. Maintaining its development course is particularly important as China continues to face mounting social and environmental problems. Energy shortages, high inequality, urban migration, food insecurity, and environmental pollution all create strains for central and provincial authorities, and, more importantly, may hinder economic development. The 11th Five-Year Plan, and Develop the West Strategy, highlight Yunnan development, and particularly Lancang River hydropower development, as crucial to China's overall economic security. As economic development relates directly to national security, and the Lancang waters are crucial for economic development, development of the Lancang River is also a crucial component of China's national security. The Lancang River is used not only for hydropower, but as a trade link to downstream markets. As energy demands continue to increase throughout the region, riparian states, especially Thailand and increasingly Vietnam, will continue to look to China, among other states, to fill their energy needs.

The prospect of the Lancang cascade is a reality and not mere speculation. As the last of the dams nears completion, the issue surrounding the dams becomes one of regulation and not of construction. Regulation may be one area China may be willing to cooperate, as good relations with its downstream neighbors becomes increasingly important. The following explores factors leading to conditions of amity between the MRC and China.

5.4 Factors Promoting Conditions of Amity

Factors promoting cooperation include the need for regional integration and stability in order to promote economic development. In order to grow new trade markets, a state must establish trust and political legitimacy. In so doing, China has embarked on campaigns to create trust through improving multilateral and bilateral relations, while expanding its awareness of the environment. The MRC has fostered better relations by adopting a more conciliatory approach towards China. An environment of trust allows cooperation to extend to other areas of interaction. These issues will be addressed in the next sections.

5.4.1 Regional Economic Integration and Security

Since Deng Xiaoping's 1978 economic reforms, China has transformed from an insular country with highly guarded foreign policies, to a market-oriented economy open to establishing relationships with regional, as well as, global partners. Since embarking on economic reforms, China has recorded unprecedented levels of growth within the last two decades, with average growth registering nearly 9.4% annually (Jiabao, 2005). In 2004, China's GDP reached US\$2 trillion while China's economy accounted for 4% of the world economy, which was only 1% in 1978 (Jiabao, 2005). Moreover, China now ranks as the world's third largest and Asia's largest importer, with goods imported from Asian countries amounting to over 65% of China's total imports in 2003 (Wanhai, 2005).

It has also become a key recipient, as well as provider, of foreign direct investment. In 2005, for instance, China received \$60 billion in FDI, while providing \$6.9 billion in investment to other countries (Sutter & Huang, 2006). Overseas investment by Chinese companies has also registered over 20% annual growth, with 80% of it made in Asia (Sutter & Huang, 2006). Government expenditures are increasingly supplemented by foreign aid and regional infrastructure investments (Goh, 2005, p. 7).

China's economic growth has made it a central power within the Asia-Pacific region, and indeed, the world. Early impressions of China's rise drew skepticism regarding the possibility of new Chinese hegemony and the potential that China would assert itself in the region – at the expense of other western nations (Sutter & Huang, 2006). Indeed, crucial to China's growth and economic security is the need to create new export markets and trade routes within Southeast Asia, and particularly to the South China Sea. Specifically, China is interested in expanding economic development in terms of trade and power development, creating infrastructure network in highways, and transmission lines, and expanding navigation to allow vessels traveling from China to the South China Sea.

Trade cannot exist amidst an environment of conflict and turmoil. To allay fears of its rise, and to create stable trade markets, Chinese leaders have embarked on a rigorous diplomatic campaign promoting policies of “do good to our neighbors, treat our neighbors as partners” (*yulin weishan, yilin weiban*) and “maintain friendly relations with our neighbors, make them feel secure, and help to make them rich” (*mulin, anlin, fulin*) (Sutter & Huang, 2006). For instance, in a 2005 speech at the Second GMS Summit in Kunming, China, Chinese Premier Wen Jiabao promoted a framework for “common prosperity” through “fostering mutual trust, treating each other with sincerity, seeking common ground while shelving differences and cooperating in a mutually beneficial way, enabling different voices to be heard, various requests to be addressed and common interests to be protected” (Jiabao, 2005).

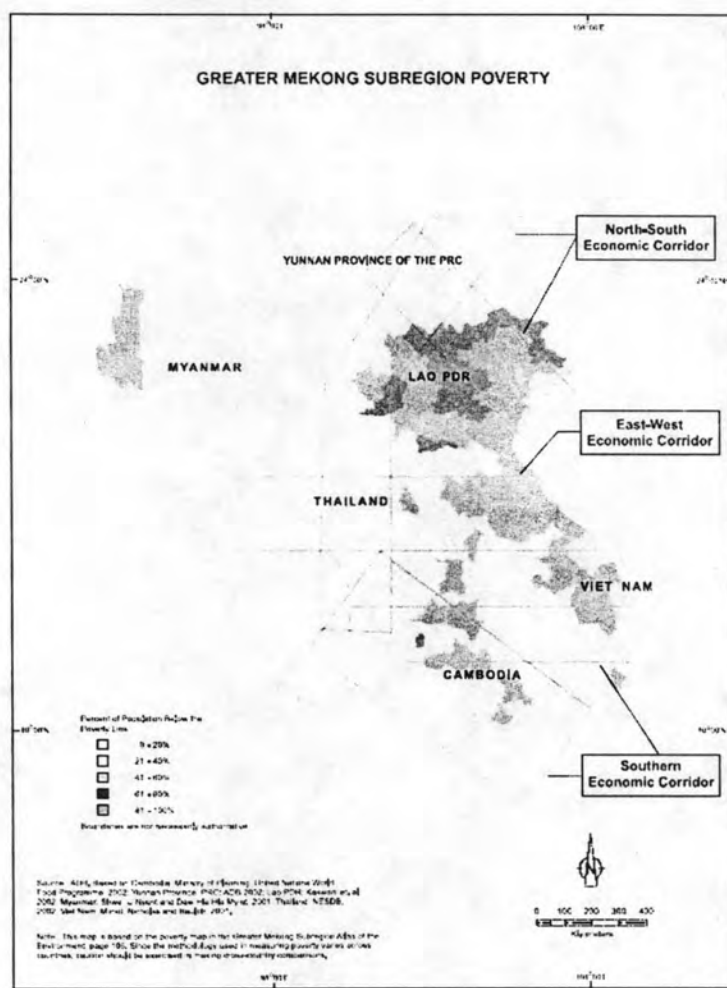
China has directed most of its diplomatic efforts towards opening trade relations and engaging in development projects, for instance, building roads and railways and laying power lines, under the auspices of ASEAN and the Asian Development Bank's Greater Mekong Subregion program (GMS), to name only a few. Importantly, all four MRC Member states are members of these frameworks, and thus, interact with China through these arrangements. China has promoted ASEAN as the proper regional mechanism to accomplish development goals. For instance, China and ASEAN are working towards establishing an Asia Free Trade Area by 2010, and have concluded the agreement on trade in goods, and started negotiations on service trade agreement and investment agreement (Sutter & Huang, 2006). The China-ASEAN FTA (CAFTA) when finished will eliminate tariffs between the ASEAN countries, leading some to project a boost in China-ASEAN trade to over \$200 billion by 2010 (Sutter & Huang, 2006). Once this is established, nearly half of the world's population will be included under this arrangement. Finally, in 1996, China became a dialogue partner with ASEAN Mekong Basin Development Committee (AMBDC), which focuses on promoting tourism and trade in the Mekong Basin.

More importantly, China has become an increasingly important player within the Asian Development Bank's Greater Mekong Subregion program, which consists of all six riparian countries and aims to promote socioeconomic growth through nine sectors: agriculture, energy, environment, human resource development, investment, telecommunications, tourism, trade, and transport (ADB, 2006). Since the inception of GMS in 1992, China has become a dominant actor in promoting trade and infrastructure development, and in 2005, hosted the Second GMS Summit in Kunming, China, the provincial capital of Yunnan Province, which represents China in the GMS. Demonstrating its commitment to the GMS structure, China has signed bilateral agreements with other GMS countries in the areas of transportation, hydropower trade, trade, and tourism. For instance, Premier Wen announced during the Kunming Summit

that China would “individually expand the range of products eligible for preferential tariff from Laos, Cambodia, and Myanmar as of January 1, 2006” (Jiabao, 2005). China also agreed to help fast-track Lao PDR and Cambodia into the WTO. In 2004, China contributed US\$ 20 million to set up a technical assistance fund for poverty alleviation to be administered by the Asian Development Bank (ADB, 2006).

In order to facilitate trade within the region, China has been a key financial contributor for infrastructure development, particularly for building transportation links and energy lines. China has provided \$40 million to build one third of the North-South Corridor in Laos (ADB, 2006). The North-South Corridor highway plan will link Kunming to Bangkok, Thailand via Lao PDR, and will be completed in 2007. Further, China has incorporated the eastern, middle, and western section plans for a Pan-Asia Railway into its own plans for a railway network (Monteparto, 2005). China has acceded to the Inter-governmental Agreement on Asian Highway Network, and the GMS Cross-Border Transport Agreement (See map 2). As mentioned earlier, China has spearheaded efforts to facilitate trade along the Lancang-Mekong River, and has financed the blasting and dredging of the river for larger vessels to be able to navigate.

Map 2: ADB GMS Economic Corridors.



Note. From “About GMS”, by Asian Development Bank, Manila, 2006. Copyright by Asian Development Bank, 2006.

China has also increased its bilateral ties with countries in the region. For instance, China has provided special preferential tariff treatment for 950 products from Cambodia, Laos, and Myanmar. In April 2006, China pledged over \$600 million in grants and loans to Cambodia (Sutter & Huang, 2006). Demonstrating the long diplomatic relationship between Thailand and China, both countries have announced

plans to establish a Closer Economic Partnership Agreement (CEPA), which would be the first of its kind for China (Sutter & Huang, 2006).

Perhaps most importantly, China's Yunnan Province has played a key role as an energy provider within the GMS Mekong Power Grid initiative, which would link power transmission lines from China's Jinghong and Nuozhadu Dams to Thailand's power grid, as well as bilaterally with riparian states. China's cooperation within the GMS is crucial to generate investment and infrastructure development for its "Develop the West" strategy to alleviate poverty in the southwest, while providing a cleaner and cheaper energy source for eastern industrial cities. China's cascade dams, as well as the GMS power grid, are pivotal components of this strategy. The Mekong Power Grid will eventually link to Singapore and Malaysia as part of a larger ASEAN power grid network (IRN, 2003). The ADB's Technical Assistance program has helped provide funding and technical support for the first transmission line between Thailand and China via Laos, with a second transmission line planned for Thailand, Vietnam, and Laos (IRN, 2003; ADB, 2006). In 2002, Ministers from all six riparian states solidified their intent to create a regional power grid by signing the Inter-Governmental Agreement on Regional Power Trade. In 2005, leaders signed a Memorandum of Understanding on the Regional Power Trade Operating Agreement and the GMS Power Trade Operating Agreement, which is the first phase of creating regulations for regional power trade (IRN, 2003).

Since the early 1990s, Thailand has been heavily involved with China's hydropower development, as large portions of China's energy have been earmarked for Thai markets. In November 1998, both governments signed a Memorandum of Understanding on the export of electricity. The energy from Jinghong dam was originally earmarked for Thai markets, where all the power generated within the first two years would be directed toward northern Thailand (Magee, 2006). However, recently these plans have changed so that Jinghong power will be directed to Guangdong and connect to the Southern China Power Grid (Magee, 2006). Thailand's EGAT will

continue to finance development of Nuozhadu dam. China has also worked to improve relations with Vietnam and has recently launched a 110-kV transmission line linking Vietnam's Tuyen Quang province with China's Yunnan province to help Vietnam import more electricity from China (Sutter & Huang, 2006). As high oil costs and increased demand continue to create pressures for new and cheaper energy sources, countries within the region, including the MRC Member states, will continue to look towards China's hydropower capacity as an ideal partner for such an endeavor.

5.4.2 Growing Interest in Environmental Security

China has undertaken environmental reforms since 1978; however, it is arguably within the last decade that environmental protection has become a priority. As noted earlier, China is facing crucial environmental challenges. Vaclav Smil and Elizabeth Economy both quote World Bank statistics "that environmental degradation and pollution cost the Chinese economy the equivalent of 8% to 12% of GDP annually due to crop and fishery losses, factory closings and increased medical care" (Economy, 2004, p. 89; Smil, 2005). The political risk of China's environmental challenges was made bare in 2005 when an industrial spill into the Songhua River in northeastern China created health and environmental impacts in Russia, which shares the river downstream. This issue was handled directly by Prime Minister Wen Jiabao, which is a telling indicator of the potential impact transboundary water issues could have on diplomatic relations.

The Songhua River crisis, as well as China's domestic environmental challenges, provide context to key environmental changes occurring within China. Responding to increasing civic pressure, China has launched a campaign to "promote both energy development and energy conservation, and give top priority to energy conservation" (Jiabao, 2005). The 11th Five-Year Plan refers to a new scientific view of development that rejects prior development-at-no-costs orientation for a sustainable, people-first approach to development (Hirsch, 2006; Naughton, 2006). Though the plan itself is short

on substantive provisions – it only pledges to cut energy consumption per unit of GDP by 20% and to reduce total discharge of pollutants by 10% -- it does establish a new tone for China's approach towards development, which incorporates more public participation in development projects, and places higher penalties for polluters (Naughton, 2006).

A speech by Premier Wen to the sixth National Environment Protection Conference in 2005 provided further details for this approach, which calls for stricter enforcement of environmental impact assessment rules and for public disclosure of environmental information, including levels of energy consumption and pollution discharge quotas from major industries (China Development Brief, 2006). Further, government authorities are now to be assessed based on how well they meet environmental targets, and not simply on economic indicators. A 2003 Environmental Impact Assessment Law requires environmental reviews in the planning stages of major development projects, as well as public participation during the planning stages, and essentially gives China's State Environmental Protection Agency greater authority to assess fines and block projects that violate China's environmental laws. This was demonstrated when SEPA fined developers of the Three Gorges Dams for not undertaking appropriate Environmental Impact Assessments .

China has also accorded NGOs and state-owned media greater freedom to research and report environment-related issues. These groups serve as government watchdogs against environmental polluters, and are used to educate the public on sustainable development issues. Since the founding of the first environmental NGO in 1994, there are now over 2,000 officially registered NGOs in China, with many more unregistered (Economy, 2005). NGOs and Chinese news media were instrumental in encouraging the State Environment Protection Agency (SEPA) and Premier Wen Jiabao to halt dam plans for the Nu River. In 2004, Chinese Premier Wen Jiabao ordered the suspension and reassessment of all the multi-billion dollar electricity stations along the Nujiang, citing public pressure and the need for a the companies to undertake a thorough

environmental impact assessment. The new environmental impact review suggests that there be only four dams instead of the original thirteen (Hirsch, 2006).

Addressing possible transboundary impacts of water pollution, China has established a joint monitoring station with Russia in order to mitigate potential crises in the future (Hirsch, 2006). This arrangement could establish a new precedent for monitoring river quality for China's other transboundary rivers, including the Lancang-Mekong. Further, the Songhua crisis could propel China to reconsider obligations under customary law, particularly the principle of equitable and reasonable use, which, to this point, has been rejected by China as infringing on China's sovereign right to use water within its own territory.

China's academic community has advanced discussions on transboundary issues through articles and conferences. This could be further evidence of China's reconsidering its position in terms of transboundary water governance. A recent conference held in Dali, China in December 2005 brought together academics, technicians, and interested stakeholders from China and within the region, as well as Australia, the United States, and Japan, to discuss the topic of "Expanding Transboundary Cooperation for Water Environmental Security in Asia's International Rivers". Here, scientists agreed to form a coalition to advance data sharing in non-sensitive issues, and to continue discussing critical issues relating to transboundary environmental security (AIRC, 2006). The event, which was hailed as a success by Chinese authorities, may help expand the areas in which China would be willing to share data. Another network of academics and scientists links eight research centers throughout the world on focusing on Mekong-related issues. The Regional Development Research Center based in Kunming, China coordinates these efforts. This epistemic community could further advance China's position on transboundary water governance, and move China further on the cooperation continuum. Indeed, as the previous chapter indicated, this may be the case, with the Asia

International Rivers Center taking the lead in analyzing the potential transboundary impacts of China's development projects on other states.

5.4.3 Regional Environmental Security

China's domestic environmentalism has created avenues for regional cooperation in environment-related endeavors. Recently, China has issued support for multilateral agreements with environmental components. For instance, the ASEAN Joint Plan of Action to Implement the Strategic Partnership for Peace and Prosperity adopted on 29 November, 2004 calls on states to protect the environment and promote sustainable development through the principles of equitable access and benefit sharing of the region's natural resources (ASEAN, 2006). The agreement also requests states to share information on the use of the Mekong's water resources. Similarly, at the Greater Mekong Subregion Environment Ministers' Summit in Shanghai, China in May 2005, and again at the Second GMS Summit in Kunming, China, leaders endorsed the implementation of the ADB's Core Environment Program (CEP) and a Biodiversity Corridor that will include parts of Yunnan province (ADB, 2006).

The CEP is to help mainstream environmental concerns within the GMS Economic Cooperation Program by providing technical, operational, and financial support. Like the environmental provisions under the ASEAN Joint Partnership, the GMS calls on states to share information on the potential environmental impacts of development projects. For instance, by 2014, the CEP aims to have "cumulative environmental impact assessment models and tools integrated in GMS Economic Cooperation Program development and impact assessments of hydropower, roads, and tourism development strategies undertaken; monitoring reports and satellite images comparing 2005 with 2008 conditions; and by 2008, for all GMS countries to produce EPAs to set environmental standards" (ADB CEP, 2006). This list indicates only a few aims of the CEP. It is important to note that the Biodiversity Conservation Corridor was

adopted by a meeting of Environmental Ministers in Shanghai in May 2005, perhaps attesting to China's interest in promoting an environment-friendly image.

Promoting environmental protection is in line with China's overall development strategy of building a harmonious society based on principles of scientific development that is people-centered and promotes "rational planning for sound resource development and better eco-system planning and environmental protection" (Jiabao, 2005). The environmental components under ASEAN and ADB are not binding on states, and it is not clear to what extent states will fulfill their various roles within it. However, these agreements do present a new dynamic in that all six riparian states have agreed, at least in principle, to share information on key environment-related development issues. The endorsement of the CEP initiative, and importantly the biodiversity corridor, suggests that states will have to amend infrastructure development projects if they negatively impact biodiversity. These agreements establish further avenues for cooperation and trust-building between China and MRC Member states.

5.4.4 Improved MRC-China Relations

Since its inception, the MRC has expressed interest in China's membership within the organization, as evidenced by Article 39, which leaves the option of membership open for China and Myanmar. However, China has continuously declined entry into the framework as a full member. As a result of its cascade and navigation projects, China became the target of criticism from the international community, as well as from the MRC Secretariat. The MRC sponsored reports that openly criticized China's development projects upstream. The MRC's CEO at the time was highly vocal about China's impacts on the river and used the media to draw attention to possible harmful impacts of, for instance, the river blasting. As one former representative at the MRC put it, China viewed the MRC's increased environmental stance and vocal opposition to China's development projects as trying to serve as a clearinghouse for development

projects (P. Sokhem, personal communications, July 18, 2006). Given China's plans for the river, it was reluctant to heed to any suggestions for further involvement.

The MRC, under the direction of Dr. Olivier Cogels, has taken a new approach towards China, emphasizing soft diplomacy and establishing trust. Cogels has said that while full membership was still the ultimate goal for MRC-China cooperation, the MRC was taking a "step-wise" approach, focusing on establishing technical arrangements first, and then moving on to more nettlesome issues (O. Cogels, personal communications, July 6, 2006). A lack of diplomacy and formal rules on how to engage China gave China the impression that the MRC was screening projects and overly critical of China's development plan (O. Cogels, personal communications, July 6, 2006). This gave China "every reason to close its doors" towards the MRC (O. Cogels, personal communications, July 6, 2006). The MRC is now more careful "not to conduct diplomacy in the public domain" in order to avoid "bad press" (W. Scheifer, personal communications, July 7, 2006).

In an effort to establish trust, the MRC Secretariat adheres to strict policies for communicating with China. The Chinese Central Government requires that all official forms of communication and interaction between the MRC and Beijing go through China's Embassy in Bangkok, Thailand – specifically the UNESCAP representative – which then forwards information on to the Ministry of Foreign Affairs and Ministry of Water Resources. Though the MRC does have technical communications with Yunnan Province through the Dialogue meetings (a representative from Yunnan navigation attends the meetings), formal relations are between the MRC and Beijing (W. Scheifer, personal communications, July 7, 2006).

As for the MRC's internal rules for information exchange, due to public disclosure agreements, and possibly in accordance with a "soft diplomacy" approach to China, the minutes of the Dialogue sessions are not made available to the public and are

only provided upon authorization from the communications officer. Further, though no formal procedures have been established regarding how working papers are to be framed, sensitive documents that mention China's development projects are pre-approved for release (M. Juntopas, personal communications, July 20, 2006). Tellingly, when asked specifically about China, every person interviewed commented on the sensitive nature of the topic. Those working within the Secretariat are especially careful with how they discuss China-related matters, for if information were to be released, the responsibility for the information would fall on the department head (M. Juntopas, personal communications, July 20, 2006).

As indicated in chapter three, the MRC's 2006-2010 Strategic Plan proposes a new role for the MRC, which would reorient the MRC's objectives towards economic development, while maintaining its original mission and objectives. China's UNESCAP Representative welcomed this new direction in his speech to the 10th Annual Dialogue Session, expressing that the MRC could do more to promote sustainable development in the region. The MRC's new development trajectory serves as yet another dynamic within this complex hydropolitical setting. As the MRC moves more towards a development-oriented disposition, this may create more incentive for China to become involved within the framework. Indeed, this seems to be the case, as China has expressly highlighted the area of trade, tourism, and capacity-building as areas for further cooperation with the MRC. However, China has not expressed interest in becoming involved in the Mekong Agreement itself.

5.5 Conclusion

As mentioned earlier, MRC-China cooperation takes place in an increasingly complex environment. Within the last decade, China has strengthened its regional ties as part of its national strategy to increase trade and economic development. China has attempted to build cooperation and trust through promoting concepts of "mutually

beneficial development”, “good neighborliness”, and “common prosperity”. Indeed, good relations in the region are increasingly important for China, as it continues to spearhead efforts towards creating an Asia Free Trade Area. A crucial component to creating good relations in the region has been to contribute to the infrastructure development of the riparian states. China and MRC Member states increasingly cooperate through the ADB’s GMS and ASEAN framework, as well as through direct bilateral relations. With the ADB’s CEP, these cooperative arrangements are also incorporating environmental concerns. In need of economic development, all four MRC Member states have been eager to expand cooperation with China in the area of hydropower development, navigation channel restructuring, trade concessions, road-building, and development of energy transmission lines. Bilateral and multi-lateral economic relations between MRC Member states and China help create conditions of amity outside the MRC legal framework and further bind these states together within a hydro-political complex, where the pursuit of one State’s national interests has an impact on other states. Though the picture of cooperation between China and the MRC is much more complex, it is clear that space has opened for better cooperation as mutual interests continue to overlap.